

OBJECTIVE:

To ensure that audit activities and reports comply with the U.S. Comptroller General's **Government Auditing Standards – 1994 Revision**.

REVIEW SIGN-OFF AND REVIEW NOTES REFERENCE

REVIEWER	SIGNATURE	DATE	REVIEW NOTES REFERENCE
FIRST Audit Standards Review (performed upon completion of risk assessment to ascertain that the audit staff has complied with the applicable general and planning standards as described in the Audit Standards Plan)			
SECOND Audit Standards Review (performed upon completion of fieldwork to ascertain that the audit staff has complied with the applicable general and fieldwork standards as described in the Audit Standards Plan)			
FINAL Audit Standards Review (performed upon completion of the audit report to ascertain that the audit staff has complied with the applicable general and reporting standards as described in the Audit Standards Plan)			
In-Charge Auditor			
Supervising Auditor			
Independent Report Reviewer			
City Auditor			

QUALIFICATIONS

The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

Page 2 of 17

INDEPENDENCE

The second general standard is:

In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.

GENERAL STANDARDS ON INDEPENDENCE	OFFICE OF THE CITY AUDITOR'S CONTROLS	WORKPAPER REFERENCE
3. The organization is responsible for having policies and procedures in place to help determine if auditors have any personal impairment to independence. Auditors are responsible for notifying the appropriate official within their audit organization when they have impairments.	<ul style="list-style-type: none"> Prior to assignment, auditors, and any consultants, should complete and sign the Staff Advisement Sheet, which requires them to identify any potential impairment. It also alerts staff that they are to notify the City Auditor's Office of any impairment that may arise during the assignment. 	<p>The Staff Advisement Sheet should be completed.</p> <p>W/P # _____</p>
4. If there is one or more impairment to independence, auditors should decline to perform the audit, or when auditors cannot decline to perform the audit, their impairment (s) should be reported in the scope section of the audit report.(GAS 22: 3.14)	<ul style="list-style-type: none"> The Staff Advisement Sheet requires the auditor to identify any impairment; the Supervising Auditor to assess whether any impairment can be mitigated; and the City Auditor to approve or disapprove the assignment. Procedure No.5-07A, requires a statement of any impairments in the audit scope section of the audit report. 	<p>The Staff Advisement Sheet should be completed.</p> <p>W/P # _____</p> <p>If applicable, describe any impairment in the audit scope section of the audit report.</p>
5. Be free from external and organizational impairments (GAS 24-27: 3.17-3.25)	<ul style="list-style-type: none"> The Charter establishes the Office of the City Auditor and provides for organizational independence. Organizational independence is achieved because the City Auditor is appointed by and reports directly to the City Council. 	<p>No reference required.</p>

DUE PROFESSIONAL CARE

The third general standard is:

Due professional care should be used in conducting the audit and in preparing related reports.

GENERAL STANDARD ON <u>DUE PROFESSIONAL CARE</u>	OFFICE OF THE CITY AUDITOR'S CONTROLS	WORKPAPER REFERENCE
<p>6. Due care imposes a responsibility upon each auditor to observe Government Auditing Standards. Auditors should use sound judgment in determining the standards that apply to work to be conducted. When standards do not apply or cannot be followed, this fact should be documented in the scope section of the audit report, along with reasons and the known effect on audit results. Exercising due professional care also means using sound judgment in establishing the scope, methodology, tests, and procedures for the audit, and in conducting the audit and reporting the audit results. (GAS 27-28: 3.27-3.30)</p>	<ul style="list-style-type: none"> • The Operations Manual includes procedures for conducting preliminary survey, risk assessment, and audit fieldwork, as well as procedures for workpapers and report writing and processing. • Procedure No. 5-01 includes procedures to ensure that internal procedures and GAS are followed. The key components of the internal quality control program are: (1) In-charge review; (2) Supervisory review; (3) Independent report review; (4) Audit Standards Review; and (5) an External Quality Control review conducted every two years. • When standards are not applicable or not followed, Procedure No. 5-07A requires that this be documented in the scope section of the audit report. 	<p>Evidence that the due care standard was met should include completed and signed APR's for the preliminary survey, risk assessment, field work, and report writing and processing. If any of these phases were not performed, a written justification for not doing so should be included in the workpapers.</p> <p>Evidence that the due care standard was met should also include documentation that the appropriate quality control procedures were followed. These procedures include the in-charge review; supervisory review; and independent report review.</p> <p>If a standard is not applicable or followed, the scope section of the audit report should be referenced.</p>

QUALITY CONTROL

The fourth general standard is:

Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

GENERAL STANDARD ON QUALITY CONTROL	OFFICE OF THE CITY AUDITOR'S CONTROLS	WORKPAPER REFERENCE
<p>7. The internal quality control established by the audit organization should provide reasonable assurance that it: (a) has adopted, and is following, applicable auditing standards and (b) has established, and is following, adequate policies and procedures (GAS 28, 29: 3.32)</p>	<p>The City Auditor's Office has implemented the following quality control procedures:</p> <ol style="list-style-type: none"> 1. In-Charge Review 2. Supervising Auditor's Review 3. Independent Report Review 4. Audit Standards Review 	<p>Evidence that the internal quality control standard has been met should include documentation that the Office's internal quality procedures were followed.</p> <p>The documentation should include:</p> <p>In-Charge sign-off on workpapers and review notes:</p> <p>W/P # _____</p> <p>Supervising Auditor sign-off on workpapers and review notes:</p> <p>W/P # _____</p> <p>Independent report review notes and a copy of the referenced audit report:</p> <p>W/P # _____</p> <p>Audit Standards review sign-off and review notes:</p> <p>W/P # _____</p>
<p>8. The audit organization should have an external quality control review at least once every three years by an organization not affiliated with the organization being reviewed. (GAS 29-31: 3.33-3.36)</p>	<ul style="list-style-type: none"> • The City Charter, Section 805.2 requires the City Council to contract with an independent audit firm, with no other contracts with the City, to conduct a performance audit of the City Auditor's Office at least every two years. 	<p>No reference required.</p>

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: AICPA STANDARDS

For financial statement audits, GAS incorporates the AICPA's three generally accepted standards of field work, which are:

- (a) The work is to be adequately planned and assistants, if any, are to be properly supervised.
- (b) A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- (c) Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

The AICPA has issued statements on auditing standards (SAS) that interpret its standards of field work (including a SAS on compliance auditing). GAS incorporates any new AICPA standards relevant to financial statement audits unless the GAO excludes them by formal announcement. (GAS page 32, 33: 4.2, 4.3)

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>PLANNING</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
9a. The work is to be adequately planned and assistants, if any, are to be properly supervised.		
9b. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.		
9c. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.		

PLANNING

The first field work standard for financial audits is:

The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures. (GAS pages 33, 34: 4.6, 4.8, 4.9).

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>PLANNING</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
10. The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures. (GAS pages 33, 34: 4.6, 4.8, 4.9)		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>PLANNING</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
11. Auditors should follow up on known material findings and recommendations from previous audits. Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. Auditee management is responsible for resolving audit findings and recommendations, and having a process to track their status can help it fulfill this responsibility. If management does not have such a process, auditors may wish to establish their own. Continued attention to material findings and recommendations can help auditors assure that the benefits of their work are realized. (GAS pages 33, 34: 4.7, 4.10, 4.11)		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>IRREGULARITIES, ILLEGAL ACTS, AND OTHER NON-COMPLIANCE</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
<p>12. Auditors should:</p> <ul style="list-style-type: none"> (a) design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements. (b) design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts. (c) be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred. <p>Auditors may find it necessary to use the work of legal counsel in (1) determining which laws and regulations might have a direct and material effect on the financial statements, (2) designing tests of compliance with laws and regulations, and (3) evaluating the results of those tests. Auditors may also find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, and/or the applicable law enforcement authority. An audit made in accordance with GAS will not guarantee the discovery of illegal acts or contingent liabilities resulting from them. (GAS page 35, 36: 4.12, 4.14., 4.15)</p>		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>IRREGULARITIES, ILLEGAL ACTS, AND OTHER NON-COMPLIANCE</u> (continued)	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
13. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred. (GAS pages 35-38: 4.13, 4.18 – 4.20)		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>IRREGULARITIES, ILLEGAL ACTS, AND OTHER NON-COMPLIANCE</u> (continued)	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
14. Auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. This may include consulting with law enforcement or investigatory authorities before extending audit steps and procedures, or withdrawing from or deferring further audit work. (GAS page 37: 4.16, 4.17)		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: INTERNAL CONTROLS

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>INTERNAL CONTROLS</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
15. Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed. GAS provides guidance on the following four aspects of internal controls that are important to the judgments auditors make about audit risk and about the evidence needed to support their opinion on the financial statements: (a) control environment, (b) safeguarding controls, (c) controls over compliance with laws and regulations, and (d) control risk assessments. (GAS pages 38-43: 4.21-4.33)		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: WORKING PAPERS

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>WORKING PAPERS</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
16. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments. Working papers should contain: (a) the objectives, scope, and methodology, including any sampling criteria; (b) documentation of work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records; and (c) evidence of supervisory reviews of the work performed. (GAS pages 44-45: 4.34-4.38)		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: SPECIFIC TYPES OF FINANCIAL RELATED AUDITS

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>SPECIFIC TYPES OF FINANCIAL RELATED AUDITS</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
<p>17. Certain AICPA standards address specific types of financial related audits, and GAS incorporates those standards, as discussed below:</p> <p>(a) SAS no.35, <u>Special Reports – Applying Agreed-Upon Procedures to Specified elements, Accounts, or Items of a Financial Statement</u>;</p> <p>(b) SAS no. 62, <u>Special Reports</u>, for auditing specified elements, accounts, or items of a financial statement;</p> <p>(c) SAS no. 68, <u>Compliance Auditing applicable to Governmental Entities and Other Recipients of governmental Financial Assistance</u>, for testing compliance with laws and regulations applicable to federal financial assistance programs;</p> <p>(d) SAS no. 70, <u>Reports on the Processing of Transactions by Service Organizations</u>, for examining descriptions of internal controls of service organizations that process transactions for others;</p>		

FIELD WORK STANDARDS FOR FINANCIAL AUDITS: <u>SPECIFIC TYPES OF FINANCIAL RELATED AUDITS</u> (continued)	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
<p>17. Continued</p> <p>(e) Statements on Standards for Attestation Engagements (SSAE) no. 1, <u>Attestation Standards</u>, for (1) applying agreed-upon procedures to an entity's assertions about internal controls over financial reporting and/or safeguarding assets or (2) examining or applying agreed-upon procedures to an entity's assertions about financial related matters not specifically addressed in other AICPA standards;</p> <p>(f) SSAE no. 2, <u>Reporting on an Entity's Internal Control Structure Over Financial Reporting</u>, for examining an entity's assertions about its internal controls over financial reporting and/or safeguarding assets; and</p> <p>(g) SSAE no. 3, <u>Compliance Attestation</u>, for (1) examining or applying agreed-upon procedures to an entity's assertions about compliance with laws and regulations or (2) applying agreed-upon procedures to an entity's assertions about internal controls over compliance with laws and regulations.</p> <p>Besides following applicable AICPA standards, auditors should follow audit follow-up and working paper standards in GAS chapter 4 (items 11 and 16 in this QCS Description). They should apply or adapt the other standards and guidance in GAS chapter 4 as appropriate in the circumstances. For financial related audits not described above, auditors should follow the field work standards for performance audits in GAS chapter 6 (items 25 – 35 in this QCS Description). (GAS pages 45, 46: 4.39, 4.40)</p>		

REPORTING STANDARDS FOR FINANCIAL AUDITS: AICPA STANDARDS

REPORTING STANDARDS FOR FINANCIAL AUDITS: <u>AICPA STANDARDS</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
<p>18. For financial statement audits, GAS incorporates the AICPA's four generally accepted standards of reporting which are:</p> <p>(a) The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.</p> <p>(b) The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.</p> <p>(c) Informative disclosures in the financial statements are to be regarded as reasonable adequate unless otherwise stated in the report.</p> <p>(d) The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.</p>		

REPORTING STANDARDS FOR FINANCIAL AUDITS: ADDITIONAL STANDARDS

REPORTING STANDARDS FOR FINANCIAL AUDITS: <u>ADDITIONAL STANDARDS</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
19. The first additional reporting standard for financial statement audits is: Auditors should communicate certain information related to the conduct and reporting of the audit to the audit committee or to the individuals with whom they have contracted for the audit. (GAS pages 48-50: 5.5-5.10)		
20. The second additional reporting standard for financial statement audits is: Audit reports should state that the audit was made in accordance with generally accepted government auditing standards. (GAS page 51: 5.11-5.14)		
21. The third additional reporting standard for financial statement audits is: The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties' external to the audited entity. (GAS pages 52-58: 5.15-5.28)		

REPORTING STANDARDS FOR FINANCIAL AUDITS: <u>ADDITIONAL STANDARDS</u> (continued)	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
22. The fourth additional reporting standard for financial statement audits is: If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary. (GAS page 58: 5.29-5.31)		
23. The fifth additional reporting standard for financial statement audits is: Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection. (GAS pages 58, 59: 5.32-5.35)		

REPORTING STANDARDS FOR FINANCIAL AUDITS: <u>SPECIFIC TYPES OF FINANCIAL RELATED AUDITS</u>	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
<p>24. Certain AICPA standards address specific types of financial related audits, and GAS incorporates those standards, as discussed below:</p> <ul style="list-style-type: none"> (a) SAS no. 35, <u>Special Reports – Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement</u>; (b) SAS no. 62, <u>Special Reports</u>, for auditing specified elements, accounts, or items of a financial statement; (c) SAS no. 68, <u>Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance</u>, for testing compliance with laws and regulations applicable to federal assistance programs; (d) SAS no. 70, <u>Reports on the Processing of Transactions by Service Organizations</u>, for examining descriptions of internal controls of service organizations that process transactions for others; (e) Statement on Standards for Attestation Engagements (SSAE) no. 1, <u>Attestation Standards</u>, for (1) applying agreed-upon procedures to an entity’s assertions about internal controls over financial reporting and/or safeguarding assets or (2) examining or applying agreed-upon procedures to an entity’s assertions about financial related matters not specifically addressed in other AICPA standards; 		

REPORTING STANDARDS FOR FINANCIAL AUDITS: <u>SPECIFIC TYPES OF FINANCIAL RELATED AUDITS</u> (continued)	WORK PERFORMED TO COMPLY WITH THE STANDARD	WORKPAPER REFERENCE
<p>24. Continued.</p> <p>(f) SSAE no. 2, <u>Reporting on an Entity's Internal Control Structure Over Financial Reporting</u>, for examining an entity's assertions about its internal controls over financial reporting and/or safeguarding assets; and</p> <p>(g) SSAE no. 3, <u>Compliance Attestation</u>, for (1) examining or applying agreed-upon procedures to an entity's assertions about compliance with laws and regulations or (2) applying agreed-upon procedures to an entity's assertions about internal controls over compliance with laws and regulations.</p> <p>Besides following applicable AICPA standards, auditors should follow the second (GAS reference), fourth (privileged and confidential information), and fifth (report distribution) additional standards of reporting (items 20, 22, and 23 in this QCS Description). They should apply or adapt the other standards and guidance in GAS chapter 5 as appropriate in the circumstances. For financial related audits not described above, auditors should follow the reporting standards for performance audits in GAS chapter 7 (items 36 – 48 in this QCS Description). (GAS pages 60, 61: 5.36, 5.37)</p>		